

**REPORT OF THE AUDIT OF THE
WARREN COUNTY
SHERIFF**

**For The Year Ended
December 31, 2005**

**ROSS & COMPANY, PLLC
Certified Public Accountants**

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The Honorable Michael O. Buchanon, Warren County Judge/Executive
Honorable Jerry "Peanuts" Gaines, Warren County Sheriff
Members of the Warren County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the Sheriff of Warren County, Kentucky, and the statement of revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2005. These financial statements are the responsibility of the Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the revenues and expenditures of the Sheriff and the revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2005, in conformity with the regulatory basis of accounting described in Note 1.

The Honorable Michael O. Buchanon, Warren County Judge/Executive
Honorable Jerry "Peanuts" Gaines, Warren County Sheriff
Members of the Warren County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated July 13, 2006 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Warren County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive, flowing style.

Ross & Company, PLLC

Audit fieldwork completed -
July 13, 2006

WARREN COUNTY
JERRY "PEANUTS" GAINES, SHERIFF
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

State Grants		\$	56,917
KLEFPF Grant			168,337
State Fees for Services			
Finance and Administration	\$	360,567	
Sheriff's Security Service		151,931	
Transporting Prisoners		41,480	553,978
Circuit Court Clerk			
Arrest Fees	\$	5,250	
HB 413		7,239	12,489
Fiscal Court			1,639,303
County Clerk			3,235
Commission on Taxes			975,722
Fees Collected for Services:			
Auto Inspections	\$	47,540	
Accident and Police Reports		5,132	
Serving Papers		108,420	
Add-on Fees		86,616	
Carrying Concealed Deadly Weapon Permits		39,495	
Sheriff's Advertising Fees		6,798	294,001
Other Revenues:			
County Collections	\$	54,890	
Reimbursed Expenses		5,497	
Miscellaneous		707	61,094
Interest Earned			23,687
Total Revenues		\$	3,788,763

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
 JERRY "PEANUTS" GAINES, SHERIFF
 STATEMENT OF REVENUES AND EXPENDITURES - REGUALTORY BASIS
 For The Year Ended December 31, 2005
 (Continued)

Expenditures

Payments to State:

Carrying Concealed Deadly Weapon Permits	\$	26,535
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Payments Made By County:

County Collections	\$	54,890	
KLEFPF Reimbursement		7,644	
Transportaqtion Expense		14,483	
Bank Charge		91	
Reimbursed Expenses		5,497	
Reimbursed Payroll		56,917	139,522
		<hr/>	<hr/>

Total Allowable Expenditures	\$	166,057
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Net Revenues	\$	3,622,706
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Payments to State Treasurer:

75% Operating Fund	3,324,537	
25% County Fund	298,169	3,622,706
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Balance Due at Completion of Audit	\$	-
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The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
 JERRY "PEANUTS" GAINES, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND
 FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2005

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2005	\$ (867,717)	\$ -	\$ (867,717)
<u>Revenues</u>			
Fees Paid to State - Operating Funds (75%)	3,324,537		3,324,537
Fees Paid to State - County Funds (25%)		298,169	298,169
Total Funds Available	2,456,820	298,169	2,754,989
<u>Expenditures</u>			
Personnel Services-			
Official Statutory Maximum	\$ 91,024		\$ 91,024
Official Training Incentive	3,194		3,194
Deputies' Salaries	2,068,240		2,068,240
Part-Time Salaries	25,493		25,493
Overtime Gross	254,799		254,799
Employee Benefits-			
Employer's Share Social Security	173,154		173,154
Employer's Share Retirement	460,509		460,509
Employer's Paid Health Insurance	176,892		176,892
Other Payroll Disbursements	1,441		1,441
Contracted Services-			
Advertising	18,498		18,498
Materials and Supplies-			
Office Supplies	32,029		32,029
Uniforms	27,090		27,090
Other Charges-			
Conventions and Travel	1,320		1,320
Training	36,769		36,769
Postage	21,090		21,090
Firearm Certification and Training	15,086		15,086
Insurance	5,453		5,453
Computer Programming and Support	200,103		200,103
Telephone/Fax/Cellular	61,649		61,649
Special Forces Operations	14,875		14,875
Law Enforcement	92,957		92,957

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
 JERRY "PEANUTS" GAINES, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND
 FUND BALANCES OF THE SHERIFF'S OPERATING FUND
 AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
 For The Year Ended December 31, 2005
 (Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Expenditures (Continued)</u>			
Auto Expenses-			
Gasoline	119,771		119,771
Maintenance and Repairs	77,606		77,606
Capital Outlay-			
Office Equipment	40,689		40,689
Special Forces Equipment	9,088		9,088
Debt Service-			
Lease Purchases	5,116		5,116
Payment to County Treasurer		298,169	298,169
Total Expenditures	4,033,935	298,169	4,332,104
Fund Balance - December 31, 2005	<u>\$ (1,577,115)</u>	<u>\$ -</u>	<u>\$ (1,577,115)</u>

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the Sheriff as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2005
- Payroll expenditures incurred but not paid

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

WARREN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent for the first six months and 25.01 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

WARREN COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2005
 (Continued)

Note 4. Leases

The office of the Sheriff was committed to a lease agreement with Gary Force Toyota for a 2003 Toyota 4 Runner. The agreement requires a monthly payment of \$451 for 36 months, with an additional final payment of \$300 if the vehicle is not purchased. As of December 31, 2005, the lease agreement was fulfilled and requires no additional payments.

The office of the Sheriff entered into to a new lease agreement with Gary Force Toyota for a 2006 Toyota 4 Runner. The agreement requires a monthly payment of \$420 for 36 months, with an additional final payment of \$400 if the vehicle is not purchased. The payments are to be completed on December 20, 2008. The total remaining balance of the agreement was \$15,129 as of December 31, 2005, with the first payment due on January 27, 2006.

Note 5. Fund Balance

The office of the Sheriff had a beginning deficit fund balance of -\$867,717. The fund balance was -\$1,577,115 as of December 31, 2005. The deficit is required to be paid in full at the end of the Sheriff's term.

Note 6. Public Seized Funds Account

The Warren County Sheriff maintains an official bank account for monies obtained from seizures and sale of property used in illegal drug activities. The purpose of this account is to purchase necessary equipment for operating the Sheriff's office. The beginning balance as of January 1, 2005 was \$3,226. Receipts for calendar year 2005 were \$7,210 and expenditures were \$5,205. The balance of the public seized funds account as of December 31, 2005 was \$5,231.

Note 7. Reimbursed Expenses

The amount deposited to the County Sheriff's Operating Fund (75%) with the State Treasurer included reimbursed expenses. These reimbursed expenses include payments from the state and county. The following were reimbursed expenses, which are credited 100% to the Sheriff's Operating Fund.

<u>Category</u>	<u>Amount</u>
Fiscal Court Assistance	\$ 1,639,203
Kentucky Law Enforcement Grant	174,268
Payroll Reimbursements	56,917
Expense Reimbursements	5,497
100% Fees	<u>639,128</u>
Total 100% Fees	<u><u>\$ 2,515,013</u></u>

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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Members of the Warren County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements - regulatory basis of the Warren County Sheriff for the year ended December 31, 2005, and have issued our report thereon dated July 13, 2006. The Sheriff's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Warren County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Warren County Sheriff's financial statements as of December 31, 2005, are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -
July 13, 2006

